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SUBJECT: GOSS 2007 Budget Adopted

REF: A) Khartoum 00133, B) Khartoum 00157

¶1. Summary: The Southern Sudan Legislative Assembly (SSLA) adopted its 2007 budget on January 29 with a projected revenue level of USD 1.536 billion. The anticipated amount flows from oil, non-oil, and non-tax revenue sources, excluding donor grants. The budget, as in 2006, allocates over 40 percent of planned expenditures to the military, USD 555 million, and provides roughly similar amounts for social and infra-structure spending as in the FY 06 budget. The Minister of Finance and Economic Planning (MOF) received harsh criticism for failing to provide information on expenditures, non-oil revenues, and missing reserves. Key ministries saw cuts from the 2006 budget because of the failure to spend last year's allocations or poor performance.

¶2. The legislators are beginning to assert themselves as budgetary watchdogs and are demanding more accountability and results from the ministries. The contentious budget review has turned up the heat on the MOF and raised the bar for performance by the GOSS. A more in-depth analysis will follow separately. End Summary.

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Legislators Lambast MOF  
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¶3. After a two-month delay, the embattled GOSS MOF, Arthur Akieun Chol, presented the FY 07 budget to the Southern Sudan Legislative Assembly (SSLA) on December 19, 2006, allowing for only a few days review before the holiday break. The legislators reconvened in mid-January to finish their review. (Note: The budget is being sent electronically to AF/SPG separately. End note.) The MOF's political future has been under a cloud for several months following ongoing corruption investigations over questionable procurements by his ministry (REF B). The latest scandal revolves around the missing USD 60 million reportedly given to the Sudan People's Liberation Movement (SPLM) by Khartoum to establish the Southern Sudan administration in the North. SPLM Secretary General Pagan Amum has accused the MOF of failing to turn over all but USD 18 million of those funds.

¶4. Unlike in FY 06, the SSLA critically reviewed the FY 07 budget and made substantial revisions based on performance and needs. The MOF was grilled before the members and lambasted in the final budget review for failing to provide a full accounting for revenues and expenditures. The SSLA questioned how the annual oil revenue in the projected budget remained constant at USD 1.3 billion despite the 2006 increase in Sudan's oil production level and the rise in global oil prices. (Comment: the SSLA seems not to understand that the budget is prepared using a benchmark price for oil and with a reserve account created to smooth the fluctuations of revenues. End Comment.)

¶5. The legislators also raised concerns about the unexplained withdrawal of USD 260 million from the Oil Revenue Stabilization Account, the omission of non-oil revenues (the South's estimated

share of Customs revenue alone is USD 16 million), and the absence of any international aid management strategy. The SSLA further criticized the MOF for preparing the budget with no input from the Bank of Southern Sudan (BOSS) and the corresponding lack of any fiscal, monetary, or taxation policies designed to promote economic growth and productivity. The MOF was commended, however, for introducing a flat personal income tax of ten percent, which the SSLA is likely to make progressive up to twenty percent.

¶6. The legislators gave stern instruction to the Finance Ministry that it is to establish a mechanism for effective collection of tax revenues and ensure that the BOSS actively engages in the budget preparation process.

#### ----- Winners and Losers -----

¶7. The approved FY 07 budget total is USD 1.536 billion, of which USD 1.375 billion was originally proposed by the MOF and USD 161 million added by the legislators. In comparison, the projected budget revenue for FY 06 was USD 1.304 billion, about 18 percent lower than that of FY 07. Although the SSLA was concerned that the various GOSS ministries did not fully spend the allocated FY 06 expenditure budget, mainly due to late disbursement of funds by the MOF, the Assembly allocated similar levels of budgetary resources to several of the GOSS entities. The Assembly also issued instructions that timely disbursement be made to ensure accelerated project implementation to meet heightened public expectations.

¶8. The FY 06 and 07 projected revenue is as follows, (all amounts in USD):

FY 2006      FY 2007

KHARTOUM 00000211    002 OF 003

Oil revenue    1.300 Billion    1.300 Billion

Non-oil revenue 4 Million    219 Million

Non-tax revenue 104 Thousand    17 Million

Total:    1.377 Billion    1.533 Billion

¶9. The total budget is allocated to 12 budget sectors: accountability; economic functions; education; health; infrastructure; natural resources and rural development; public administration; rule of law; security; social and humanitarian affairs; transfers; and reserves. Over 80 percent of the budget, however, was allocated to six key sectors during both fiscal years. The allocation for the six sectors was at 90 percent in FY 06, while it is reduced to 84 percent in FY 07. The decline is due to reduced 07 allocations in education and health.

¶10. Allocations for the six major sectors:

FY 06      FY07

Sector	Amount	Percent	Amount	Percent
	USD M	USDM		

Security	528	42	555	43
Infrastructure	279	22	309	24
Transfers	116	9	125	10
Education	137	11	112	9
Rule of law	74	6	98	8
Health	109	9	84	7

Six Sectors

Total    1.243 B 90    1.283 B 84

Total GOSS

FY Budget    1.377 B    1.536 B

(Note: In the budget as published, expenditures do not equal revenues. End note.)

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Show us the Money, Spend the Money  
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¶11. The legislators have also underscored that the Finance Ministry must improve its disbursement performance, following testimonies from various ministries that they were not given their allocated resources when requested. Reportedly, the Ministry of Housing, Lands and Public Utilities, headed by Vice President Riek Machar, succeeded in spending about 86 percent of its FY 06 expenditure allocation, while only 45 and 11 percent of the allocations were spent by the Ministry of Health and the Disarmament, Demobilization, and Resettlement Commission, respectively. The SSLA has directed that, in the future, the MOF must report progress to the assembly on a quarterly basis.

¶12. Although the projected overall personnel level declined in FY 07 by 44 percent (from 117 thousand in FY 06 to 65 thousand in FY 07) projected expenditures on personnel salary/wages rose by 192 percent (from USD 252,645 million in FY 06 to USD 737,535 million in FY 07). The legislators noted that most ministries or agencies overspent on salaries/wages in FY 06. The Finance Ministry is still expected to provide additional explanations on the personnel number and expenditure linkages.

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The Role of the BOSS  
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¶13. Even though the Comprehensive Peace Agreement (CPA) envisaged the BOSS to be central in depositing and transferring GOSS funds, only 34 percent of the FY 06 revenues were handled by it. The remainder was deposited in various financial institutions in Khartoum, Nairobi, Geneva, and Abu Dhabi. The SSLA has now directed that in the future the Finance Ministry is to deposit all GOSS funds in the BOSS before any payments are made in or out of the country.

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Military Needs Trump All  
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¶14. The military was the biggest winner in dollar amounts under the FY 07 budget, getting an additional 50 million on top of the 500 million originally proposed by the MOF. The legislators justified the increase as necessary to address the growing insecurity, specifically "the wanton murder of Southern Sudanese in cold blood

KHARTOUM 00000211 003 OF 003

by ambushes (sic) on the roads throughout the summer...the shootout in Malakal in November, the incidents in Wau, Jonglei, and in various places..." as well as for "capacity building." GOSS officials have told ConGen that while the military spending is huge, quarterly reporting will provide a means of accounting for how it is spent.

POWERS